# Overview of the Federal Budget Process

# Outline

## Authorities That Underpin the Federal Budget Process

### Constitution

#### Article I

**Section 8**
Clause 1. The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States....
Clause 2. The Congress shall have Power ... To borrow Money on the credit of the United States.

**Section 9**
Clause 7. No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law....

#### Article II

**Section 2**
Clauses 1 and 2. The President shall be Commander in Chief … He shall have Power, by and with the Advice and Consent of the Senate, to make Treaties … and shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court.…

**Section 3**
Clause 1. He shall from time to time give to the Congress Information of the State of the Union, and recommend to their Consideration such Measures as he shall judge necessary and expedient...

### Federal Statutes

Budget and Accounting Act of 1921

Congressional Budget and Impoundment Control Act of 1974

### House and Senate Rules

### Executive Orders

## The Federal Budget: Components and Trends

### Spending

**Budget Authority**
Authority provided by federal law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

**Obligations**
A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States.

**Outlays**
The issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation. Outlays during a fiscal year may be for payment of obligations incurred in prior years or in the same year.

### Revenues
### (Receipts or Governmental Receipts)

Collections that result from the federal government's exercise of its sovereign power to tax or otherwise compel payment and gifts of money to the government.

Sources of revenue include: individual income taxes; corporate income taxes; social insurance taxes; excise taxes; estate and gift taxes; customs duties; and miscellaneous (such as fees, fines, penalties, forfeitures, gifts, and contributions).

Exclusions from revenue include: borrowing, offsetting collections and offsetting receipts, and some user fees.

### Deficit and Surplus

The deficit is an excess of outlays over revenues; the surplus is an excess of revenues over outlays.

### How Trends in the Budget Are Measured

Change in Nominal Dollars
Change in Constant Dollars
Change in Percentage Distribution
Change as Percentages of Gross Domestic Product (GDP)

**Exhibit A. CBO's Baseline Budget Projections**

**Table 5.**

## CBO's Baseline Budget Projections

| | Actual 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | In Billions of Dollars | | | |
| Revenues | | | | | | | | | |
| Individual income taxes | 1,146 | 1,060 | 1,199 | 1,396 | 1,572 | 1,726 | 1,853 | 1,978 | 2,099 |
| Corporate income taxes | 304 | 223 | 252 | 290 | 333 | 343 | 334 | 347 | 347 |
| Social insurance taxes | 900 | 915 | 938 | 978 | 1,032 | 1,087 | 1,141 | 1,192 | 1,242 |
| Other | 173 | 160 | 144 | 162 | 187 | 197 | 216 | 229 | 241 |
| **Total Revenues** | **2,524** | **2,357** | **2,533** | **2,825** | **3,124** | **3,353** | **3,544** | **3,746** | **3,929** |
| On-budget | 1,866 | 1,686 | 1,846 | 2,111 | 2,372 | 2,561 | 2,710 | 2,873 | 3,019 |
| Off-budget | 658 | 672 | 687 | 714 | 752 | 793 | 834 | 873 | 910 |
| Outlays | | | | | | | | | |
| Mandatory spending | 1,597 | 2,164 | 1,857 | 1,914 | 1,906 | 2,033 | 2,156 | 2,288 | 2,458 |
| Discretionary spending | 1,133 | 1,184 | 1,188 | 1,189 | 1,193 | 1,220 | 1,246 | 1,274 | 1,308 |
| Net interest | 249 | 195 | 191 | 220 | 289 | 358 | 392 | 418 | 434 |
| **Total Outlays** | **2,978** | **3,543** | **3,236** | **3,323** | **3,388** | **3,610** | **3,794** | **3,980** | **4,201** |
| On-budget | 2,504 | 3,026 | 2,689 | 2,752 | 2,784 | 2,973 | 3,121 | 3,271 | 3,453 |
| Off-budget | 475 | 517 | 547 | 571 | 604 | 637 | 672 | 709 | 748 |
| **Deficit (-) or Surplus** | **-455** | **-1,186** | **-703** | **-498** | **-264** | **-257** | **-250** | **-234** | **-272** |
| On-budget | -638 | -1,340 | -843 | -641 | -412 | -413 | -411 | -398 | -434 |
| Off-budget | 183 | 155 | 140 | 143 | 149 | 156 | 162 | 164 | 162 |
| Debt Held by the Public | 5,803 | 7,193 | 7,829 | 8,238 | 8,475 | 8,516 | 8,734 | 8,925 | 9,149 |
| **Memorandum:** | | | | | | | | | |
| Gross Domestic Product | 14,224 | 14,257 | 14,452 | 15,137 | 16,048 | 17,035 | 17,986 | 18,864 | 19,703 |

**Source**: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019*, January 2008, Table 5, p. 16.

## The President's Budget

### Initial Budget Submission

The President is responsible for submitting to Congress a budget for the U.S. Government. It must be comprehensive and include required elements specified in law (31 U.S.C. 1105).

Deliberations within the executive branch during budget formulation are confidential.

The deadline for the budget submission is toward the beginning of the congressional session and has been changed several times over the years.

In general, the President's budgetary proposals are merely recommendations; they do not take effect unless legislation is enacted into law. "The President proposes, Congress disposes."

The budget submission typically takes the form of a multi-volume set, prepared under the guidance and direction of OMB, which issues instructions for budget preparation and submission in Circular A-11.

### Subsequent Interaction With Congress

Agency officials "justify" the President's proposals to congressional committees.

OMB ensures that all agency testimony, legislative proposals, and communications to Congress adhere to the President's budget through a "central clearance" process.

Changes in the budget are sent to Congress throughout the year in the form of amendments and supplementals.

A formal update of the budget, known as the "Mid-Session Review," must be submitted to Congress by July 15.

President's may use devices such as Statements of Administration Policy (SAPs) and signing statements to influence congressional and agency behavior.

From time to time, a President may enter into "budget summit" negotiations with congressional leaders to reach a broad-scale agreement or agreement on major legislation.

## Budget Submission in Presidential Transition Years

### Does the Outgoing or Incoming President Submit the Budget?

Prior to the 1990s, the deadline for the submission of the budget occurred before the outgoing President's term ended, and all outgoing Presidents submitted the budget. An incoming President usually submitted revisions to his predecessor's budget.

In 1990, the deadline was changed to "on or after the first Monday in January but not later than the first Monday in February of each year." Incoming Presidents Bill Clinton (in 1993 for FY1994) and G.W. Bush (in 2001 for FY2002) submitted the budget, as will incoming President Barack Obama for FY2010.

### Timing of the Submission

Recent incoming Presidents have advised Congress regarding the general contours of their economic and budgetary policies in special messages submitted to Congress in February concurrently with a presentation made to a joint session of Congress:

- President Reagan, February 18, 1981, *America's New Beginning: A Program for Economic Recovery*;
- President Clinton, February 17, 1993, *A Vision of Change for America*; and
- President George W. Bush, February 28, 2001, *A Blueprint for New Beginnings: A Responsible Budget for America's Priorities*.

The budget submissions of incoming Presidents Clinton and G.W. Bush, and budget revisions of earlier incoming Presidents, generally occurred more than a month later, in April: President Reagan, April 7, 1981; President Clinton, April 8, 1993, and President G.W. Bush, April 9, 2001.

### Impact on Timing of Congressional Action

Congress and the President successfully completed action on key budgetary legislation during each of the past five presidential transition years, with many, but not all, actions completed in a timely manner:

- budget resolutions were adopted in all five years (and no later than May 21);
- reconciliation acts were enacted in four of the five years;
- regular, supplemental, and continuing appropriations acts were enacted in each year, although few (or none) of the regular appropriations acts were enacted by October 1 (the first day of the fiscal year) in four instances;
- in each instance, a major revenue bill was enacted (three of the five bills were reconciliation measures) and between one and three debt-limit measures were enacted, except during the G.W. Bush Administration (when no such measures were needed).

## Congressional Budget Resolution and Budget Enforcement Procedures

### Purpose and Form of the Budget Resolution

The annual budget resolution is a congressional statement regarding the appropriate budgetary and fiscal policy for a multi-year period.

As a concurrent resolution, it reflects the agreement of the House and Senate. It is not sent to the President for his approval and does not become law.

The budget resolution is not intended to be a device for making programmatic decisions.

### Budget Resolution Content

The budget resolution must include budget aggregates and functional allocations of spending for at least five fiscal years. The major aggregates are:

- total spending (new budget authority and outlays);
- total revenues and the amount by which revenues should be changed through legislative action;
- total deficits or surpluses; and
- the public debt limit.

The 20 or so functional categories of the budget include such areas as national defense, agriculture, transportation, health, and administration of justice.

The budget resolution may include optional elements, such as reconciliation directives and appropriate procedural provisions.

### Legislative Action and Enforcement

House and Senate action on a budget resolution is expedited. It cannot be filibustered in the Senate.

Budget resolutions are enforced principally by points of order with respect to timing, jurisdiction, and substantive policies, and by the reconciliation process.

CBO and the JCT prepare cost estimates on legislation, which are incorporated by the Budget Committees into a budget scorekeeping system.

## Reconciliation Legislation

### Purpose of the Reconciliation Process

The fundamental purpose of reconciliation is to bring existing law into compliance with the budget resolution.

For the most part, reconciliation has been used to reduce the deficit. For part of the past decade, reconciliation was used to reduce revenues, thus increasing the deficit. New House and Senate rules, requiring that reconciliation be used only to reduce the deficit, were adopted in 2007.

### Reconciliation Procedures

Reconciliation is a two-step process. In the first step, reconciliation directives are included in the budget resolution. In the second step, reconciliation legislation is developed and considered in response to the directives.

If the House and Senate do not reach final agreement on the budget resolution, then the reconciliation directives are not triggered.

Reconciliation directives are not program-specific; they determine "how much" but not "which ones."

Reconciliation directives usually result in a single, omnibus reconciliation bill. In some instances, more than one reconciliation bill may result.

The consideration of reconciliation legislation is expedited.

Once the legislative process for reconciliation has come to a close (i.e., enactment or veto), reconciliation legislation may not be developed and considered again unless another budget resolution containing reconciliation directives is agreed to by the House and Senate.

### Enforcement

Several different points of order are available to encourage committees to comply with their directives and to keep reconciliation focused on its fundamental purpose. In the Senate, 60 votes are required to waive these provisions.

The Senate's "Byrd Rule" bars the inclusion of extraneous matter in reconciliation legislation.

## Authorizations, Appropriations, and Direct Spending Legislation

### Distinction Between Discretionary Spending and Direct Spending

All Federal spending is classified as either discretionary spending or direct spending (the latter also is referred to as mandatory spending).

Discretionary spending is provided through the enactment of annual appropriations acts, which are under the jurisdiction of the House and Senate Appropriations Committees.

Discretionary spending mainly involves the routine operations of federal departments and agencies, including salaries and expenses, construction, and so forth.

Direct spending is provided through the enactment of substantive legislation. Generally, direct spending acts provide new budget authority under their own funding mechanisms (mainly permanent appropriations), and the annual appropriations process is not involved. Direct spending acts are under the jurisdiction of the legislative committees of the House and Senate.

Direct spending mainly involves entitlement programs, such as Medicare, Medicaid, federal employee retirement programs, and unemployment insurance. (The largest entitlement program, Social Security, is off budget.)

In some instances, funding is provided in annual appropriations acts for direct spending programs that do not include their own funding mechanisms in substantive acts; Medicaid is an example of such a program. For budget enforcement purposes, such funding does not count against limits on annual appropriations.

### Discretionary Spending: The Authorizations-Appropriations Dichotomy

The rules of the House and Senate draw a distinction between authorizing legislation and appropriations legislation.

The purpose of the distinction is to separate substantive policy decisions from funding decisions. "Conventional" authorizing acts do not provide any funding; instead, funding is provided in regular, continuing, and supplemental appropriations acts.

This dichotomy is enforced by points of order under long-standing rules in each chamber, House Rule XXI and Senate Rule XVI.

These rules generally require that authorizing legislation for programs be enacted into law before appropriations acts funding those programs can be considered. They also generally require that appropriated amounts not exceed authorized amounts.

**Exhibit B. Types of Spending Legislation**

| Discretionary Spending | | Direct Spending | |
|---|---|---|---|
| (a) | (b) | (c) | (d) |
| ***"Conventional" Authorization Act*** | ***Annual Appropriations Act*** | ***Direct Spending Act*** | ***"Hybrid" Authorization Act*** |
| Provides new budget authority?<br><br>**No** | Provides new budget authority?<br><br>**Yes** | Provides new budget authority?<br><br>**Yes** | Provides new budget authority?<br><br>**Yes** |
| May contain "authorizations of appropriations"?<br><br>**Yes** | May contain "authorizations of appropriations"?<br><br>**No** | May contain "authorizations of appropriations"?<br><br>**No** | May contain "authorizations of appropriations"?<br><br>**Yes** |
| Major budget enforcement mechanism:<br><br>Not applicable | Major budget enforcement mechanism:<br><br>Section 302(b) spending limits | Major budget enforcement mechanism:<br><br>Section 302(a) spending limits; PAYGO rules; and reconciliation. | Major budget enforcement mechanism:<br><br>Section 302(a) spending limits; revenue floor; PAYGO rules; and reconciliation. |

**Exhibit C. A CBO Cost Estimate on a Hybrid Measure**

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1321 is summarized in Table 1. The costs of this legislation fall within budget functions 050 (national defense), 270 (energy), 350 (agriculture), and 400 (transportation).

**TABLE 1. ESTIMATED BUDGETARY EFFECTS OF S. 1321**

| | By Fiscal Year, in Millions of Dollars | | | | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | |
| Estimated Authorization Level | 1,402 | 1,778 | 1,764 | 1,732 | 1,723 |
| Estimated Outlays | 456 | 1,254 | 1,685 | 1,805 | 1,766 |
| **CHANGES IN DIRECT SPENDING** [a] | | | | | |
| Estimated Budget Authority | 443 | 484 | 469 | 440 | 398 |
| Estimated Outlays | 150 | 337 | 461 | 457 | 433 |
| **CHANGES IN REVENUES** [a] | | | | | |
| Estimated Revenues | 0 | -104 | -243 | -40 | 60 |

**Source**: Congressional Budget Office, *Cost Estimate, S. 1321, Energy Savings Act of 2007, (as reported by the Senate Committee on Energy and Natural Resources on May 7, 2007),* June 11, 2007, p. 2.

## Revenue and Debt-Limit Legislation

### Revenue Legislation

Origination Clause and Blueslipping

Income Tax Rate Changes, Tax Expenditures, Excise Taxes, Tariffs

Pay-As-You-Go (PAYGO) Rules

### Debt-Limit Legislation

Statutory Limit on the Public Debt

Two Categories of Public Debt

Legislative Procedures for Adjusting the Debt Limit

## Implementation of Spending Legislation by the Executive

### The Antideficiency Act and Apportionment

Requirements of the Antideficiency Act

OMB and Apportionment

Monitoring by GAO

### Transfer and Reprogramming

Transfers of Appropriations (From Account to Account)

Reprogramming (Within an Account)

### Impoundment

Rescissions and Deferrals

Cancellations